

Coal Production Increases in 2002

Summary. Indonesia's coal production increased more than 11 percent in 2002, despite continued uncertainty in the mining industry over legal and tax issues. Rising coal exports and strong domestic demand fueled the increase. Only state coal company PT Bukit Asam (PTBA) saw production decline, due primarily to coal transport problems. Industry watchers expect coal production's upward trend to continue for now, but the GOI must resolve the systemic issues, including the Value Added Tax (VAT), which threaten the long-term health of the industry. **End summary.**

Coal production reached 103 million metric tons (MT) in 2002, an increase of 11.2 percent over the year before. All major coal producers experienced increases (see below) except for state-owned coal company PTBA, whose production dropped over seven percent. Problems in transporting PTBA's coal by train from its South Sumatra mines to the ports accounted for most of its production decline. (Note: PTBA's coal is shipped by another state-owned enterprise, railroad company PT Kereta Api. Like a number of SOEs, PT Kereta Api is under-funded; chronic maintenance problems have reduced its ability to operate many of its lines. Contacts tell us that PTBA is now providing some funds to the railroad company in an effort to get more lines running. End note.)

Table 1. Coal Production Statistics (in thousands MT)

Company	2000	2001	2002	%Change
PTBA (state-owned)	10,746	10,212	9,482	-7.1
Adaro Indonesia	15,481	17,708	20,819	17.6
Kaltim Prima Coal	13,099	15,528	17,577	13.2
Kideco	8,038	10,381	11,500	10.8
Arutmin	7,708	9,532	10,557	10.8
Berau Coal	4,877	6,750	7,123	5.5
Indominco Mandiri	3,705	4,435	5,335	20.3
Other CCOWs	8,514	12,195	13,832	13.4
Local cooperatives	4,848	5,806	6,681	15.1
TOTAL	77,016	92,546	102,906	11.2

Note:

CCOW refers to companies with coal contracts of work. Local cooperatives are small coal mining firms that obtain concessions at the regional level. Source: Directorate of Mineral and Coal Enterprises

Coal Exports Up, Account for 70 Percent of Production

Coal exports increased by 8.9 percent last year, from 66.5 million MT to 72.5 million MT. Half of the increase came from a long-term contract agreement by the Philippine National Power Corporation (NPC) and the Philippine National Oil Corporation (PNOC) for an additional three million MT of coal per year. The GOI predicted coal exports would increase in 2003 to 75 million MT, based upon three Taiwan Power contracts for 500,000 MT/year each with KPC, Tanito Harum and PTBA. KPC remained the country's largest coal exporter, shipping 16.6 million MT in 2002, followed by Adaro Indonesia, Arutmin, and Kideco Jaya Agung. Japan and Taiwan remain Indonesia's primary coal markets, accounting for over 40 percent of exports, followed by South Korea, the Philippines, Hong Kong and Malaysia (the U.S. receives about one percent of Indonesian coal exports).

Table 2. Coal Export Statistics (in thousands MT)

Company	2000	2001	2002	%Change
PTBA (state-owned)	2,142	1,895	1,855	-2.1
Kaltim Prima Coal	12,743	15,079	16,629	10.3
Adaro Indonesia	9,671	11,446	12,688	10.9
Arutmin	9,303	9,247	9,858	6.6
Kideco Jaya Agung	6,525	7,321	6,750	-7.8
Indominco Mandiri	3,863	4,371	5,334	22.0
Berau Coal	3,344	4,415	5,072	14.9
Other CCOWs	6,297	8,770	9,954	13.5
Local cooperatives	4,302	3,971	4,314	8.6
TOTAL	58,190	66,517	72,454	8.9

Source: Directorate of Mineral and Coal Enterprises

Coal-Fired Power Drives Domestic Demand

Domestic coal demand rose 6.6 percent to 29 million MT in 2002. Coal-fired power plants were the single largest consumers, accounting for about 19 million MT, or 65 percent of total demand. (Note: The large, 3400-MW coal-fired Suralaya power plant uses 30,000 tons of coal per day alone, supplied by PTBA, Adaro, Kideco, Jaya Agung and Arha Daya Coalindo.) Cement plants were the second largest consumers at about 17 percent, while non-industrial coal consumption accounted for just over 10 percent of domestic use.

The Energy Ministry predicts that domestic coal demand will increase to about 35 million MT per year over the next five years. Some of the increase would come from increased use of fuel briquette coal for households and industries. However, much of the additional demand will come from planned coal-fired independent power projects (IPPs) at Tanjung Jati B (1320 MW), Sibolga (200 MW) and Amurang (110 MW). (Note: state-owned PLN recently renegotiated new

power purchase agreements with these three previously-canceled IPPs, and hopes to have them all on line by 2006. Last month, PLN also announced it would attempt to revive three other coal-fired IPPs in Central and West Java, at Tanjung Jati A, Cilacap and Serang.)

Systemic Problems Threaten Long-Term Health

Despite the good news, there are some systemic problems that threaten the long-term health of the coal mining industry. Regulatory duplication and overlap between the central and regional governments is one problem. The lack of a new, comprehensive draft mining law is another issue. One continuing concern is Indonesia's onerous taxation policy, which has resulted in an effective tax rate of over 60 percent (the Frasier Institute ranked Indonesia's tax regime a lowly 43 out of 47). The situation worsened following a 2001 decision to assess coal mining companies a 10 percent VAT for imported capital goods and services. As a result, coal investment has slumped from 778 million USD in 1997 to 135 million in 2001. The Indonesian Association of Coal Mining Companies reports that 33 coal mining investors have canceled projects, worth 1 billion USD, since 1999.

Comment

The coal industry's bright production statistics are somewhat illusory. New investment is not keeping up with demand. For now, coal companies can use existing reserves to feed the growing domestic and export markets, but new exploration is virtually zero. Absent greater legal certainty and tax reductions, we believe the Indonesian coal industry will lose market share to countries with higher investment potential, like Australia, South Africa and China.